Hudson's Bay Company
Annual Report 1978

Significant Events of 1978

	$
Simpsons acquisition	**347** million
Zellers acquisition	**76** million
Markborough acquisition	**40** million
Siebens disposition	**123** million
Bay stores expansion	**47** million

Subsequent to the year end, on March 15, 1979, the Thomson family interests made a cash offer of $31.00 per share for 51% of the outstanding ordinary shares of Hudson's Bay Company. By the time shareholders receive this annual report, the offer will have expired, unless extended, and directors will have communicated with shareholders about the offer by means other than this report.

Contents

The 310th Annual Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 18, 1979, at 12.00 noon.

Shareholders wishing to receive annual reports of Hudson's Bay Oil and Gas Company Limited, Simpsons, Limited and/or Zeller's Limited are invited to write to The Secretary, Hudson's Bay Company, 2 Bloor Street East, Toronto, Ontario M4W 3H7.

On peut obtenir ce rapport annuel en français sur demande.

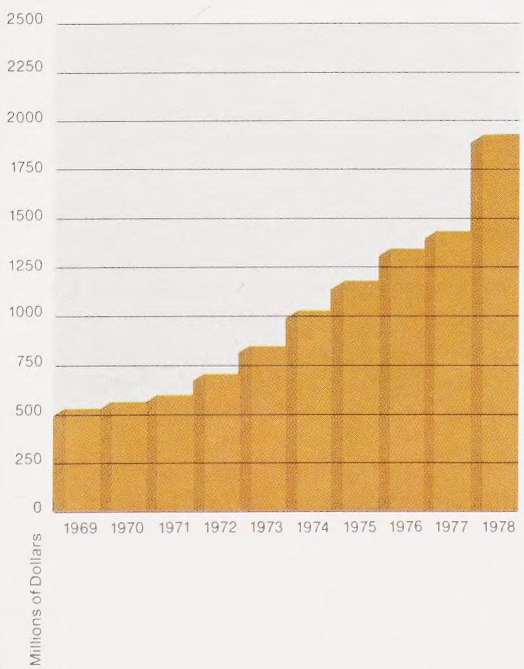
Expansion

The photographs in this report depict the growth of the Company, externally by the acquisition of Simpsons and Zellers, and internally by opening and modernizing Bay stores.

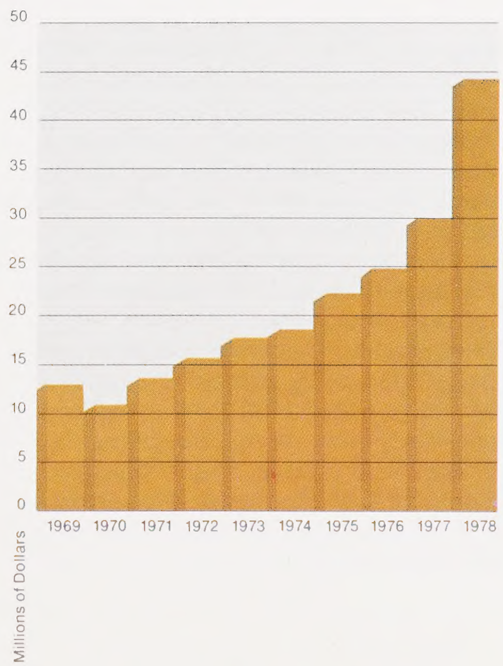
Financial Highlights

	1978	1977	Increase
	$	$	%
Sales and revenue	**1,896,302,000**	1,427,390,000	**32.9**
Earnings before extraordinary items	**44,645,000**	29,881,000	**49.4**
Extraordinary items	**98,367,000**	–	
Net earnings	**143,012,000**	29,881,000	
Cash flow	**75,312,000**	48,209,000	**56.2**
Capital expenditures	**58,915,000**	43,075,000	**36.8**
Shareholders' equity	**732,124,000**	275,964,000	
Per share:			
Earnings before extraordinary items	**2.74**	2.12	**29.2**
Net earnings	**8.79**	2.12	
Dividends	**.91**	.65	**40.0**
Equity	**25.80**	19.50	**32.3**

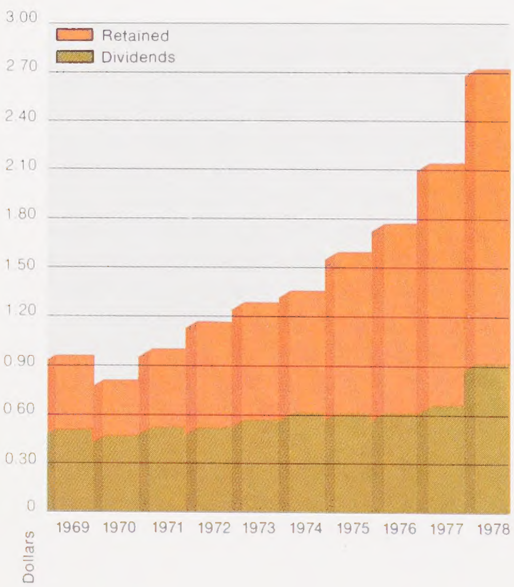
Revenue



Earnings*



Earnings per Share*



*Excludes extraordinary items

Directors' Report to Shareholders

During 1978 your Company achieved one of its major long-term objectives in becoming a truly national retailer, enlarged its investment in real estate, sold a major natural resource investment, and increased its earnings per share by 29%. These accomplishments will exert a profound influence on the future development of your Company.

In the retail area, through the acquisition of 57% of Zeller's Limited and 88% of Simpsons, Limited, Hudson's Bay Company now owns a balanced national department store network. Your Company accordingly has become as important a retailer in the major markets of eastern Canada as it has been for many decades in western Canada, and now leads all Canadian department stores in total sales. The implications of your Company's new position present both significant new opportunities and important added responsibilities.

Corporate Developments

Clearly, the year under review was one of the most important in the Company's history, and one in which long-term corporate developments overshadowed current operations. Chronologically, these developments were:

1. Glenlivet Sale—$6 million

In February 1978 your Company sold its investment in Glenlivet Distillers Limited. This had originally been a minority investment in Hill, Thomson & Co. Ltd., the supplier of branded Hudson's Bay Company Scotch whisky. Hill, Thomson was acquired by Glenlivet in 1970 and Glenlivet was, in turn, the object of a takeover bid by Seagram Investments Inc. in early 1978. This sale generated an extraordinary gain of approximately $4.4 million after tax.

2. Markborough Minority Acquisition—$40 million

In June the Company offered to acquire the 36% minority share interest in Markborough Properties Limited which it did not then own. The offer, of one Bay share for each Markborough share, resulted in the issuance of 1,854,000 Bay shares. The transaction benefited both parties: the Markborough minority shareholders received a more marketable, better-quality security, and your Company obtained assets which we believe have considerable long-term potential.

3. Siebens Disposition—$123 million

In August the Company announced an agreement with Dome Petroleum Limited under which The Bay sold, in January 1979, its 35% interest in Siebens Oil & Gas Ltd. for $38.50 per Siebens share. The consideration was preferred shares of a Dome subsidiary, valued at $123 million. This transaction generated an extraordinary gain of $94 million after tax. In a full year dividends on the preferred shares will add approximately $8.8 million to the Company's cash flow.

4. Zellers Acquisition—$76 million

Also in August, the Company announced that it would offer to purchase all the shares of Zeller's Limited, for a consideration comprising cash and Bay shares. Zellers operates promotional department stores under its own name across Canada, and Fields family clothing stores in the western provinces. Its merchandising thrust is towards the middle and lower income customer. We regard Zellers as an extension of The Bay's merchandising activities into geographic areas and consumer market segments where the Company has not previously been strongly represented. When the offer closed in October, your Company had acquired a 57% interest in Zellers at a cost of $76 million, $31 million of which was paid in cash.

5. Simpsons Acquisition—$347 million

In November your Company announced an offer for all the shares of Toronto-based Simpsons, Limited, one of Canada's leading traditional department store companies. In addition to its own retail activities, Simpsons owned a 41% interest in Simpsons-Sears Limited, whose department store and mail order catalogue activities made it Canada's largest retailer. (Sears, Roebuck of Chicago also owns a 41% share in Simpsons-Sears.) At the time of The Bay's announcement, Simpsons and Simpsons-Sears were concluding amalgamation proceedings which would have made the resulting company almost twice as large as any competitor.

Our interest in Simpsons has been long-standing because Simpsons' department stores operation, primarily in eastern Canada, complements the western-based strength of The Bay's department stores.

We decided to make the offer for Simpsons for three principal reasons:

a) to create a strong, nationwide department store organization, widely owned by Canadians;

b) to improve the long-term average productivity of the Company's retail operations through acquisition of Simpsons' excellent retail locations; and

c) to enable your Company to compete more effectively in the Canadian market.

The struggle for control of Simpsons was vigorous but, eventually, The Bay emerged with 88% of Simpsons' shares and a 36% minority interest in Simpsons-Sears. In return, Simpsons' shareholders received the equivalent of $343 million, comprising Bay ordinary and preferred shares and $97 million in cash.

We will treat the Simpsons-Sears investment passively and will take no part in the operation or management of that company.

George Richardson, Don McGiverin and Alex MacIntosh

Current Position

The effect of the events of last year on the future of your Company will be enormous. Your Company is now one of Canada's largest, with assets of $2.4 billion, sales which in 1979 will probably exceed $3 billion, 42,000 employees, and 30,000 shareholders. On a combined basis, it now holds the number one retail position in Canada's two largest markets, Toronto and Montreal. For the first time, Hudson's Bay Company possesses significant retail representation in the Maritime provinces, and a strong thrust in the medium to lower priced markets.

The Company's acquisitions have rationalized the Canadian department store industry into five strong, nationwide groups: Simpsons-Sears, Eaton's, Woolco, K-Mart, and ourselves, together with a powerful regional department store, Woodward's. Although your Company is the largest in terms of total sales, its share of the overall market for department store type merchandise, as defined by Statistics Canada, is only 7%, about the same as the share held by Simpsons-Sears. The Company's position, therefore, does not approach market dominance, nor does it constitute a threat to the continued vigorous competition which characterizes the retail industry.

We shall conduct our merchandising activities in three groups: The Bay, Simpsons, and Zellers, each operating under its own name and management. This arrangement should optimize sales by preserving the distinct market focus and image characteristics of each group—its "personality". Each group will be responsible for its own profitability and development. Co-operatively, we shall identify those activities where savings can be achieved by combined action for the benefit of all.

We have no plans to dispose of our investment in Simpsons-Sears. On the other hand, as we do not intend to participate in the management of that company, we would consider a disposition over the medium term, should favourable conditions arise.

Our disposition of Siebens in return for a medium-term preferred share investment has strengthened the financial position of the Company by increasing retained earnings, cash flow and current profits and by improving balance sheet ratios.

One of the major challenges to management during the next few years will be to re-position these two major investments in such a way as to achieve maximum benefits for the Company and its shareholders.

1978 Results

Earnings were $44.6 million, or $2.74 per share, based on the weighted average of 16.3 million shares outstanding during the year. (There were 23.1 million shares outstanding at the year end.) In addition, the Company recorded non-recurring gains in 1978 of $98.4 million, arising principally from the disposition of its investment in Siebens. Sales and revenue were $1.9 billion. Direct comparisons with the previous year are distorted by acquisitions but, on a comparable basis, with acquisitions excluded, sales and revenue were up 14.2%, earnings were up 25.1% and earnings per share were ahead 20.8%, as shown in the table below.

Effect of Acquisitions	Revenue ($ millions)	Earnings ($ millions)	Earnings Per Share $
Excluding Markborough and Zellers acquisitions	1,629.8	37.4	2.56
Impact of Markborough acquisition	–	1.5	(0.06)
Impact of Zellers acquisition	266.5	5.7	0.24
Fully consolidated	1,896.3	44.6	2.74

In merchandising, retail profits were substantially higher than they were a year ago. The Bay retail stores had their best year ever, as many newer stores became increasingly productive, and expenses were well controlled. In addition, this year's merchandising results include the earnings, for the last four months of the year, of Zellers, which had a highly successful Christmas season.

As the Company did not acquire control of Simpsons and its investment in Simpsons-Sears until close to the end of the year, these acquisitions have not been consolidated into 1978 earnings.

Fur profits were higher as strong demand pushed fur prices to record levels.

Improved results from shopping centres, and the sale of a one-half interest in a large holding of development lands in Phoenix, Arizona, resulted in somewhat higher earnings from real estate.

Improved natural resource earnings were attributable to higher crude oil and natural gas volumes and prices in Siebens Oil & Gas Ltd., and an increase in dividends paid by Hudson's Bay Oil and Gas Company Limited.

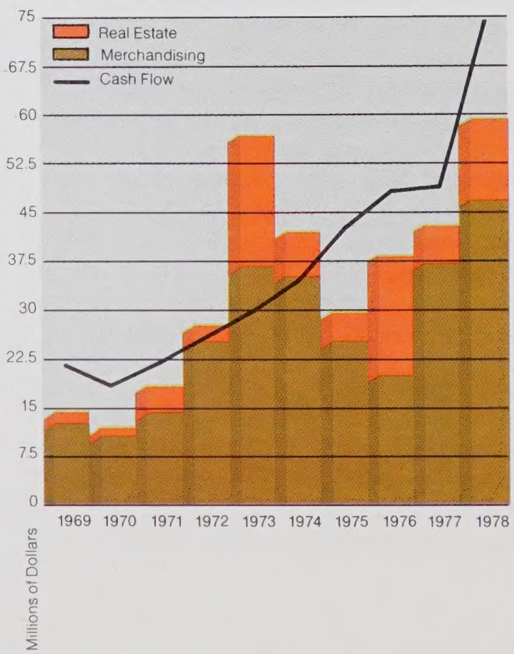
Further information on each of these areas of activity will be found on the following pages.

Financial

The Company's effective tax rate increased from 33.6% to 37.1%, principally because of the significantly larger portion of the Company's earnings from its merchandising operations.

Finance costs increased by 28% owing to higher borrowing levels and higher short-term interest rates. The average borrowing rate increased from 8.6% to 9.1%. Cash flow from operations was $75.3 million, an increase of 56.1%. Additional sources of funds, primarily used to finance acquisitions during the year, were long-term debt of $50.2 million, the issue of ordinary shares for $192.9 million, and the issue of preferred shares for $136.3 million. Proceeds from the sale of the Company's interests in Glenlivet Distillers Limited and Siebens Oil & Gas generated a further $128.8 million.

Capital Expenditure and Cash Flow



The most significant use of funds related to the acquisitions of interests in Markborough, Zellers, Simpsons and Simpsons-Sears which, in aggregate, amounted to $463.6 million. Capital expenditures increased by 37% to $58.9 million, of which $46.8 million related to merchandising projects, and a further $12.1 million to real estate projects.

Dividends

The Company adopted a revised dividend payment policy and increased its dividend rate with the payment of the first quarterly dividend of 22¢ per share on January 31, 1979. The Board declared a quarterly dividend of 27½¢ per share on March 16, 1979, payable on April 30, 1979. The new annual rate of $1.10 per share compares with dividends of 69¢ per share paid in the 1978 calendar year. At 40% of 1978 earnings the dividend payout is close to but still somewhat below the Company's historic norm.

The Future

There is no doubt that the outlook for your Company has improved dramatically during the year, and its prospects can now be best perceived from the perspective of its recent history.

When the Company moved from England to establish itself as a Canadian company in 1970, it was, in the view of most Canadians a western department store group that also did business in the North. At that time, The Bay operated eight downtown department stores and nine suburban stores in the major Canadian cities. Only one downtown store and seven of the suburban branches were located east of the Manitoba border, and the ratio of sales was heavily weighted towards the West. In addition, The Bay's sales were predominantly in the downtown cores.

Your Company recognized that its merchandising operations would have a limited future if that situation were allowed to continue. To succeed, it would have to tap the rich and expanding markets of eastern Canada, develop further in its traditional markets and move strongly into the growing suburbs.

This it set out to do.

—The Company entered the Ottawa market in 1971 through the purchase of A. J. Freiman Limited.

—The following year the names of both the Freiman operation and Morgan's in Montreal, which had been acquired earlier, were changed to The Bay, as part of a national market development program.

—The Company entered the catalogue store business in Ontario by developing Shop-Rite from two stores in 1972 to 63 stores at present.

—The Bay has pursued an aggressive retail development program through the 1970's, opening one downtown and ten suburban department stores in three eastern Canadian cities, eight suburban department stores in four western Canadian cities, and 16 department stores in smaller communities across Canada.

Until last year, however, realization of one of its principal objectives—to become a major retailer in all parts of Canada—seemed a discouragingly long time away. Then, with two significant acquisitions last year, The Bay became what it had striven to be—a truly national department store organization.

The outlook for a front-runner is necessarily different from that for an also-ran. The Company is now a leader. Its objectives must be redefined and its responsibilities re-examined. It must perceive new initiatives and develop new strategies upon which to build and extend its success.

Your Company has begun this process by establishing a corporate management group, comprising:
D. S. McGiverin, President and Chief Executive Officer,
P. W. Wood, Executive Vice-President,
T. I. Ronald, Corporate Vice-President, Finance,
D. O. Wood, Corporate Vice-President, Systems and Distribution Services,
J. G. W. McIntyre, Corporate Vice-President, Real Estate and Development,
M. H. MacKenzie, Corporate Vice-President, Personnel,
A. R. Huband, Vice-President and Secretary.

C. W. (Wally) Evans has been appointed as President, The Bay, with responsibility for all Bay and Shop-Rite stores and Wholesale operations.

We are projecting a slightly lower rate of increase in consumer spending in 1979. Merchandising results will depend largely on the success of our three retail groups in achieving further increases in productivity and efficiency. Natural resource returns are expected to improve as a result of the Siebens transaction. Real estate results will probably be little changed from those of 1978. The Company is forecasting per share earnings for 1979 to be somewhat ahead of those of 1978.

Directors

Messrs. C. W. Evans and Joseph Segal, who head two of the Company's three retail groups, were elected to the Board in 1979. In addition, Mr. Donald O. Wood, Corporate Vice-President, Systems and Distribution Services, was elected a director in May, 1978.

Appreciation

We welcome warmly the new employees, shareholders, suppliers and customers with whom we became associated during the past year. We express our sincere appreciation to our continuing employees for their outstanding achievements during 1978, and to our customers, suppliers and shareholders for their solid support. We look to the future with confidence.

On behalf of the Board

G. T. RICHARDSON
Governor

D. S. McGIVERIN
President

March 16, 1979.

Simpsons, Limited

A Brief Description

Simpsons, Limited had its beginnings in 1872, when Robert Simpson opened a small dry goods store on the corner of Queen and Yonge Streets in Toronto. Since then that single store has grown into one of the largest department store chains in Canada.

Simpsons operates 21 department stores, located in Toronto (8), Montreal (5), Halifax/Dartmouth (2), London (2), Regina, Ottawa, Windsor, and Kitchener, with an aggregate floor area of approximately 4½ million square feet. Each of the stores sells a complete line of department store goods and services, carrying a "satisfaction or money refunded" guarantee. Contemporary merchandising techniques are combined with modern and efficient facilities and fixtures to produce the most favourable visual impact and a high sales volume.

Simpsons' flagship store in downtown Toronto, with about one million square feet, is a well-known Canadian landmark that has been described as "truly among the great stores of the world".

Simpsons holds significant real estate interests in addition to its department stores. The Simpsons Tower adjoining the Toronto downtown store contains 350,000 square feet of office space, in a prime location. Simpsons has a share interest in a number of shopping centre companies which own the centres where it has stores or facilities.

Simpsons owned a 41% equity interest in Simpsons-Sears Limited until December 15, 1978, when this holding was distributed as a dividend to Simpsons' shareholders. (Hudson's Bay Company subsequently acquired 88% of the holding pursuant to the Simpsons takeover bid which was varied to include the dividend, and therefore owns a 36% equity in Simpsons-Sears Limited.)

Simpsons-Sears, which was established in 1952 as a joint venture of Simpsons, Limited, and Sears, Roebuck & Co. of Chicago, is one of Canada's largest retailers of general merchandise, operating 63 department stores and 891 catalogue sales offices across the country.

1978 Operations

The fiscal year of Simpsons was changed from the end of December, to end on January 31, 1979 and, therefore, the figures for 1978 cover 56 weeks as compared with 52 weeks in the previous year.

Sales for the 56 weeks were $744 million. To compare with last year, sales for the 52 weeks ended January 31, 1979 were $704 million, an increase of 10.2%. Net earning after taxes were $31 million (65.9¢ per share) for the 56 weeks of 1978 compared with $28.1 million (59.7¢ per share) for the 52 weeks of 1977. The earnings for the 52 weeks ended January 31, 1979 were substantially the same as the 56 weeks and are estimated at $31 million (66¢ per share).

Included in earnings figures are equity in earnings of Simpsons-Sears Limited for the period of part ownership of that company, equity in earnings of shopping centre companies and extraordinary net costs relating to the merger and takeover activities of 1978. Simpsons operations, excluding Simpsons-Sears Limited and extraordinary item, earned $10.6 million (22.7¢ per share) for the 56 weeks and $12.3 million (26.3¢ per share) for the 52 weeks ended January 31, 1979 as compared with restated $9.1 million (19.5¢ per share) for the 52 weeks of the 1977 fiscal year.

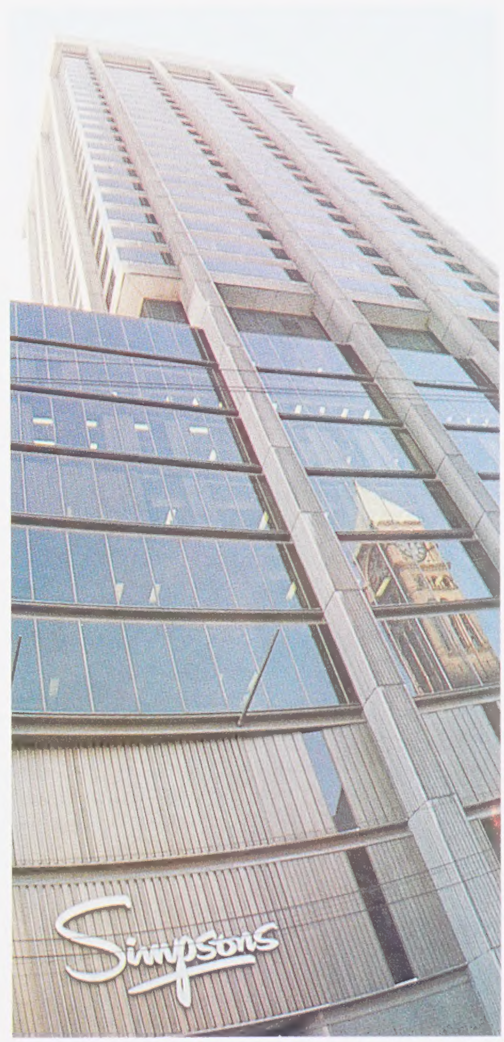
Simpsons opened its 21st full-line department store of 137,000 square feet in August of last year in Les Promenades St-Bruno, a new large shopping centre on the south shore of Montreal. This centre also includes stores of The Bay and Eatons.

Simpsons does not plan to open any stores this year, but has major multi-million-dollar refurbishing programs in progress in its large Toronto downtown and Yorkdale stores.

The bridge crossing Queen Street in Toronto and connecting the downtown flagship store with the huge Eaton Centre is in position, and will be opened officially next August.

Simpsons store, Scarborough Town Centre, Toronto

A glimpse of Simpsons downtown Toronto store



The Simpsons Tower, Toronto, reflecting the Old City Hall

Zeller's Limited

A Brief Description

Founded in 1931, Zeller's Limited operates a nationwide chain of 155 stores across Canada, of which 98 are promotional department stores in suburban shopping centres, and the remaining 57 are in other shopping centres and in downtown locations. The Zellers stores sell a complete assortment of current fashion, staple, and seasonal merchandise. The merchandise is priced to offer solid value, and presented to create both immediate price impact and an image for the stores of lasting price appeal. The Company's primary target customer is the middle and lower income woman shopper, 25 to 49 years of age, with a family. The Company directs its merchandising and marketing effort to meeting basic family needs in apparel and accessories, home products, health and beauty aids, convenience merchandise, hard lines (including leisure related categories), smallwares, and some services.

Fields Stores Limited, a wholly-owned subsidiary of Zeller's Limited, operates a chain of 61 family clothing and 11 junior department stores with a strong value appeal in western Canada.

Marshall Wells Limited, a wholly-owned subsidiary of Fields Stores Limited, is a major distributor of hardware in western Canada. It sells, through franchised dealers, a wide range of hardware and consumer goods, including home entertainment products, major appliances, sporting goods and housewares. It also operates an industrial division with modern distribution facilities in Winnipeg and Edmonton, which sells building and industrial products and supplies.

1978 Operations

Consolidated net earnings from operations of Zellers for 1978 amounted to $16.7 million, or $1.26 per share, up 43.7% compared with net earnings from operations of $11.6 million or 87¢ per share before extraordinary items the year before.

Fields Stores and its subsidiaries contributed $94.9 million to consolidated sales and $2.1 million to consolidated net income for the year.

Results of Zellers, excluding Fields, continued to show strong sales gains with sales in 1978 amounting to $554 million, an increase of 13.0% over 1977. The growth in sales resulted from greater depth of assortment, better in-stock position of basic items, and increased emphasis on family apparel, particularly in the fourth quarter which is the most profit productive quarter of the year. An improved sales promotion program, with increased emphasis on television and greater frequency of circulars, was a factor contributing to the increase in sales.

Zellers' net earnings for 1978 of $14.5 million, excluding Fields' contribution, also showed a significant improvement, increasing by 45.6% over last year. The higher operating earnings resulted from improved gross margins and well-controlled expenses. Higher advertising expenditures, however, were incurred to increase customer awareness and to develop a strong promotional image.

Zellers program to refurbish and modernize stores, to improve departmental layout and merchandise presentation is proceeding on schedule. Nine stores were completed during the year and all have shown significant improvement in profit and sales productivity. The program will continue into 1979 and ten stores have presently been identified for modernization.

One new store was opened during the year, in Sussex, New Brunswick in November. A more aggressive new store opening program has been developed for 1979 and at this time, five new stores are proposed. It is the Company's intention to open four or five stores each year.

Zellers Montreal – North store

Fields store, Brentwood Centre, Vancouver

Zellers store, Brentwood Centre, Vancouver


Resolute Bay
Tuktoyaktuk
Aklavik
Inuvik
Fort McPherson
Arctic Red River
Holman
Victoria Island
Cambridge Bay
Spence Bay
Gjoa Haven
Yukon
Fort Good Hope
Coppermine
Fort Norman
Fort Franklin
Whitehorse
Northwest Territories
Baker Lake
Chesterfield Inlet
Rankin Inlet
Fort Simpson
Fort Providence
Fort Rae
Yellowknife
Fort Liard
Hay River
Fort Resolution
Fort Nelson
Meander River
Fort Smith
Eskimo Point
British Columbia
Prince Rupert
Hazelton
Smithers
Kitimat
Mackenzie
Fort St. John
Dawson Creek
Fort St. James
Prince George
John D'or Prairie
Fort Vermilion
Fox Lake
Fort Chipewyan
Uranium City
Fond-du-Lac
Stony Rapids
Black Lake
Churchill
Fairview
Peace River
Wabasca
Fort McMurray
Grande Prairie
Atikameg
Desmarais
High Prairie
Portage La Loche
Buffalo Narrows
Patuanak
Brochet
Manitoba
Lynn Lake
Grand Cache
Lac La Biche
Dillon
Ile-à-la-Crosse
Beauval
Southend
Stanley
La Ronge
Pelican Narrows
Leaf Rapids
Gillam
Split Lake
Shamat
Pukatawagan
Nelson House
Thompson
Oxford House
Alberta
Hinton
Valley
Drayton
Edmonton
Camrose
Ponoka
Rocky Mountain House
Red Deer
Lloydminster
Cumberland House
Prince Albert
Flin Flon
Wabowden
God's Narrows
Cross Lake
Island Lake
Snow Lake
Rossville
Norway House
Waasagomach
The Pas
Campbell River
100 Mile House
Kamloops
Courtnay
Port Alberni
Nanaimo
Vancouver
Vernon
Langley
Kelowna
Chilliwack
Penticton
Victoria
Trail
Cranbrook
Banff
Calgary
Brooks
Medicine Hat
Lethbridge
North Battleford
Saskatoon
Saskatchewan
Yorkton
Swift Current
Moose Jaw
Regina
Poplar River
St. Theresa Point
Berens River
Sandy Lake
Round L
Little Grand Rapids
Pikangikum
Cat
Red Lake
Balmertow
Grassy Narrows
Pine Falls
Brandon
Lac du Bonnet
Pinawa
Winnipeg
Hudso
Dryden
Atikokan
Hudson's Bay Company
Retail and Wholesale Locations
January 31, 1979
The Bay (269)
Simpsons (21)
Zellers (155)
Wholesale Branches (50)
Excludes Shop Rite stores in Ontario (63)
and Fields stores in Western Canada (72)

Southern Ontario
Owen Sound
Midland
Orillia
Barrie
Hanover
Newmarket
Oshawa
Richmond Hill
Brampton
Georgetown
Toronto
Guelph
Milton
Mississauga
Kitchener / Waterloo
Cambridge
Burlington
St. Catharine
Hamilton
Brantford
Grimsby
Niagara Fal
Sarnia
London
Welland
Port Colborne
St. Thomas
Fort Erie
Wallaceburg
Chatham
Windsor
Leamington
Arctic Bay
Pond Inlet
Nanisivik
Clyde
Baffin Island
Arctic Circle
Broughton Island
Igloolik
Hall Beach
Pangnirtung
se Bay
Frobisher Bay
Cape Dorset
Lake Harbour
Coral Harbour
Sugluk
Wakeham Bay
Payne Bay
Povungnituk
Fort Chimo
Rigolet
Cartwright
North West River
Newfoundland
Hudson Bay
Inukjuak
Happy Valley
Schefferville
Blanc-Sablon
St. Paul's River
St. Augustin
Sanikiluaq
Labrador City
Tabatière
Chevery
Grand Falls
Carbonear
Romaine
St. John's
Grande Rivière de la Baleine
Severn
Québec
Gagnon
Havre-St-Pierre
Rivière-au-Tonnerre
Stephenville
Fort-George
Maliotenam
Sept-Îles
r Lake
Paint Hills
Port-Cartier
Attawapiskat
Bearskin Lake
Eastmain
Kashechewan
Baie-Comeau
Murdochville
Trout Lake
Albany
Hauterive
Chandler
Webequie
Moosonee
Betsiamites
Mistassinni
P.E.I.
Sydney
Pickle Lake
Fort Rupert
Forestville
Rimouski
Wunnummin Lake
Moose Factory
Chibougamau
Bathurst
Charlottetown
Newcastle
Alma
Chatham
Summerside
Chapais
Lansdowne House
Ontario
Chicoutimi
Amherst
New Glasgow
w Osnaburgh
Matagami
New Brunswick
Ogoki
Obedjiwan
Nova Scotia
Fort Hope
Pointe-Bleue
Moncton
Hearst
Nakina
Noranda
Fredricton
Truro
rmstrong
Smooth Rock Falls
Senneterre
Québec
Kentville
Geraldton
Longlac
Sussex
Halifax/Dartmouth
x Lookout
Val d'or
Portneuf
St Georges-de-Beauce
Hornepayne
Trois-Rivières
St-John
Bridgewater
Schreiber
Manitouwadge
Iroquois Falls
Manouane
Thetford Mines
Nipigon
Marathon
Yarmouth
Victoriaville
Red Rock
St-Jérôme
Drummondville
Wawa
New Liskeard
White River
St-Hyacinthe
Thunder Bay
Pembroke
Beloeil
North Bay
Lachute
Montréal
Sudbury
Ottawa / Hull
Sherbrooke
Elliot Lake
Cornwall
Carleton Place
Smiths Falls
Sault Ste. Marie
Brockville
Peterborough
Kingston
Lindsay
Trenton
Cobourg
see Inset

The principal activities of the Company are in Retail, Wholesale and Fur merchandising. Earnings from these activities before tax and interest were $95 million in 1978, an increase of 68% over the previous year. These earnings include the results of Zellers for four months from the date of acquisition, but do not include any earnings from either Simpsons or Simpsons-Sears. Excluding Zellers, merchandising earnings were ahead by 27%.

Retail—The Bay

The Bay retail stores had their best year ever in 1978, as many of the new stores built and the modernization projects undertaken within the last few years became increasingly productive.

Sales were up 14.4%, rebounding strongly from the slump of 1977 (when the increase over the previous year was only 2.7%, despite an excellent Christmas selling season). This year's sales strength reflected an improvement in consumer spending attitudes which, in turn, were influenced by temporary reductions in sales taxes in most provinces. A management decision to increase basic inventories, thereby placing more goods on display, also contributed to the increase. The rate of growth of sales increased as the year progressed, with the best sales growth in the highly important last quarter.

Regionally, sales were strongest in Montreal and British Columbia. In Montreal, improved merchandising and sales promotion programs made a stronger impact, and in B.C. higher consumer sales reflected an overall recovery in the province's resource-based economy. Prolonged strikes in the iron ore district of Quebec reduced sales in four stores in that area.

Gross profit margins were little changed from the previous year. Expenses, although higher, were well controlled. As a result, a significant portion of the sales increase that was in excess of budget came through as profit.

Sales in the Shop-Rite Catalogue Stores division increased substantially over the previous year, partly as a result of the lower margins which prevailed in an extremely competitive market.


New Bay store, Park Royal, Vancouver


The Bay's renovated main floor, Victoria


Shopping at The Bay, Victoria

New Bay store, Park Royal, Vancouver


High fashion at The Bay, Park Royal

Six new Bay stores were opened during 1978 as follows:

	Square feet
Montreal, St. Bruno	124,000
Oshawa, Ontario	130,000
Vancouver, Park Royal	126,000
Rimouski, Quebec	63,000
Val d'Or, Quebec	65,000
Carbonnear, Newfoundland	42,000

The stores in Oshawa and Vancouver are located in extensions to existing successful regional shopping centres. The other four stores are in new centres.

At Labrador City, Newfoundland, The Bay moved to a new location which, at 61,000 square feet, is approximately double the size of the former store. A small store was opened in the new iron ore mining community of Nanisivik on Baffin Island in the Northwest Territories. Stores at Cape Dorset, Gjoa Haven and Coppermine in the Northwest Territories and at Rigolet, Newfoundland were rebuilt. In addition, 14 small stores were increased in size, and two were closed.

The main floor of the Bloor and Yonge store in Toronto was expanded by 20,000 square feet The program of modernizing existing stores continued, with major projects being completed at Victoria downtown, Winnipeg downtown, and Fairview, Toronto.

The Bay plans to open nine new stores in 1979. The three largest will be in Coquitlam, our seventh store in the Vancouver area, at St. Vital, our third store in Winnipeg, and in the Scarborough Town Centre, our tenth store in the Toronto area.

The Company continued to rationalize and expand financial, travel, car rental, and credit services for its customers.

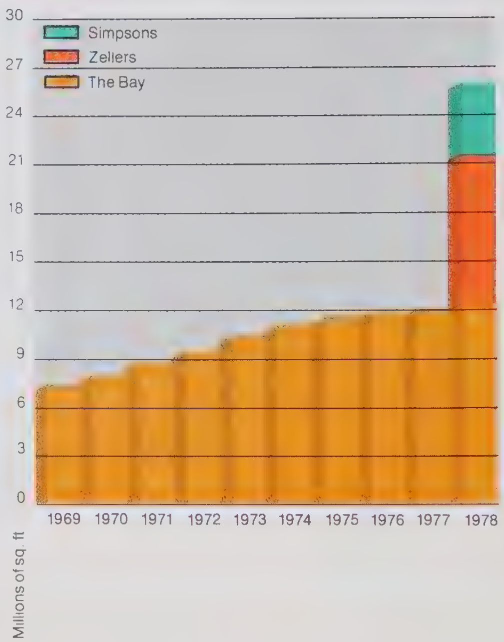
—Nine Bay financial centres were opened in our stores during 1978. These are operated by Eaton/Bay Financial Services Limited, in which your Company has a 38% equity interest. Eaton/Bay markets life and general insurance, mutual funds and trust company services, primarily to department store customers through direct mail and sales counters in retail stores. Eaton/Bay broadened its operations by acquiring Commerce Capital Corporation for $22 million in January 1979. Commerce Capital provides trust and mortgage services from offices across Canada.

—A joint venture travel company was formed with Calladine & Baldry Limited, one of Canada's leading travel agents. The new company will operate Bay Travel offices in Bay stores from coast to coast.

—Arrangements were made with Hertz Canada under which Hertz car rental stations were established in The Bay downtown stores in Montreal and Toronto, and Bay credit cards will be honoured at Hertz locations across Canada.

—Arrangements were made to accept bank credit cards (Master Charge and Chargex/Visa) at all Bay stores across Canada as a supplement to our own credit card system. We believe that most customers will continue to want to have the total credit facility provided by the combination of bank and store credit cards.

Retail Facilities




The Bay's furniture department, Fairview Mall

New Bay store, Oshawa, Ontario

Cosmetics department, in the recently modernized store at Fairview Mall, Toronto

The Bay, Oshawa, view from the mall

Entrance to The Bay, Oshawa

Wholesale

The business of Hudson's Bay Wholesale continued to grow. Sales were ahead by 10.2%. However, earnings declined by 8.3%. This was largely due to extremely competitive conditions, which prevailed in cigarette marketing across Canada during 1978.

New Wholesale branches were opened at Yarmouth, Nova Scotia, and Kelowna, British Columbia. This brings the total of conventional Wholesale branches to 37, from which tobacco, confectionery, sporting goods, photographic supplies, small electricals, giftware, and associated items are distributed to the retail trade. The Vending Division shares 15 of these locations, and operates independently at another 13 locations.

The Vending Division had a very successful year, with sales and profit ahead strongly. Most of the initial operating problems resulting from the acquisition of Amco Services in 1977, have been solved, and the Division is well on the way to further expansion. The Division sells hot and fresh foods, snacks and beverages, as well as music and entertainment, from more than 20,000 machines. Its customers are institutions, such as hospitals, universities and secondary schools, as well as hotels, taverns, and convenience stores. The Red Carpet coffee service, which services offices and institutions, continued to grow during 1978.

The development of the Vending Division is part of our overall strategy to become less dependent on tobacco sales, which historically have accounted for about 70% of the sales of Hudson's Bay Wholesale. The success of this strategy is demonstrated by the fact that our sundry sales, which include sporting goods, photographic supplies and giftware, increased by 20%, and confectionery and food sales by 24%.

A computerized billing and invoicing system was installed in the Winnipeg branch during 1978. It is the forerunner for similar systems soon to be installed in larger branches across Canada to provide better service for customers at lower cost to the Company.

Fur

The fashion demand for fur garments continued unabated during 1978 in Europe and North America. In addition, this demand spread to other parts of the world, including Japan, which is now an important consuming country. The increasingly high demand caused an international fur shortage before the new crop was ready to market. As a result, when the new selling season opened in December, 1978, sharply higher prices prevailed in virtually all varieties of fur. Further increases were recorded in subsequent auctions.

As well as the auction houses, the Company's own collection of wild furs benefitted from the rising market, with the result that record aggregate profits were again achieved.

The business of Dominion/Soudack Fur Sales was acquired as of November 1, 1978. The integration of this auction house into the H B C group will provide the Company with an auction house in Winnipeg to complement its established outlets in Montreal, New York and London. This acquisition will ensure improved service to shipper-customers as well as buyers.

The Company has begun a building program to consolidate and modernize its London auction facilities at Hudson's Bay & Annings Ltd. (59% owned). These new facilities are scheduled to be completed by the fall of 1980.

The Bay's new store in Rimouski, Québec


Rimouski, view from the mall


New Bay store, Carrefour du Nord-Ouest, Val d'Or, Québec

The Bay's new store, Les Promenades, St-Bruno, Québec

St. Bruno's shopping mall

Real Estate

Earnings from real estate before interest and taxes were $17.8 million, an increase of 20.1% over 1977. The Company's real estate interests (apart from land and buildings used in merchandising operations) consist principally of a 99.8% interest in Markborough Properties Limited (Markborough), and whole or partial ownership in shopping centres in Canada. As mentioned earlier in this report, your Company increased its equity interest in Markborough from 64.3% during 1978.

Markborough

Markborough has changed its year end from October 31 to January 31. Net earnings for the fifteen months to January 31 1979 totalled $5.4 million, compared to $3.8 million for the twelve-month period ended October 31, 1977. Improved results from income properties, and the sale of a one-half interest in lands owned by Markborough's Arizona subsidiary, more than offset the effect of reduced land sales in Ontario, where the housing market was depressed.

Revenue from income properties continued to grow, reaching $14.9 million for the fifteen-month period. The first phase of the shopping facilities in the Meadowvale Town Centre, containing Canada's largest Dominion store, opened in March 1978. An expansion of this centre to 340,000 square feet, gross leaseable area, is scheduled for a spring construction start. In addition, a 200-room hotel, soon to be started and to be known as Delta's Meadowvale Inn, will be opened in the summer of 1980.

The expansion of the United States operations in 1978 was highlighted by the acquisition of 1,100 acres of land in Scottsdale, Arizona. In January 1979 a 50% interest in these lands was sold to Costain Limited, with Markborough retaining responsibility for management. Development of this Scottsdale project should begin in the latter part of 1979. Other substantial land purchases were made with local partners in San Diego, California and Houston, Texas. In Homestead, Florida, the project known as the Villages of Homestead opened with the first sales of homes constructed by the joint venture, of which Markborough is a 50% owner and the development manager. A sale of all the remaining production of single-family and townhouse lots in the first and second phases to a large American housebuilder has been negotiated.

The College Park redevelopment in downtown Toronto, 14.2% owned by Markborough, moved ahead. Ninety per cent of the 320,000 square feet of office space was leased and tenants for approximately 60% of the retail commercial area have been found. Leasing of the 210-suite apartment tower began recently.

In Calgary, Alberta, a 120-acre first phase of the Woodbine Subdivision has been fully serviced and registration of the plan is expected to produce the first lot sales to builders in the spring. Demand for serviced lots in this market is strong.

While the effects of the Company's expansion program will probably not produce significant earnings in the short term, profits should be at a reasonably satisfactory level in 1979.

Hudson's Bay Company Real Estate

Earnings from real estate holdings other than Markborough increased 25% to $5.9 million (before interest and tax) for 1978. The main source of such earnings is fifteen shopping centres (four wholly-owned, and eleven in which the Company has equity).

The Company strives to keep its shopping centres competitive and up-to-date through a continuing program of expansion and modernization. The most recent project is the expansion of Lloydmall centre in Lloydminster, Alberta, which includes a Zellers store, and which will open during the summer of 1979.

The Trizec Corporation has acquired a 50% interest in the Southcentre shopping centre in Calgary, which was formerly wholly-owned by the Company.

Principal Plaza is a major office complex now under development on Jasper Avenue in Edmonton, and in which the Company shares ownership (25%) with Campeau Corporation (50%) and Edmonton Properties Limited (25%). The 31-storey prestige office building includes retail facilities and is expected to be linked to the downtown Bay store through the underground pedway system. A parking structure to service the complex is being built adjacent to the Bay parkade. The Principal group of companies will be a major tenant, hence the name Principal Plaza. Projects such as this increase customer traffic for downtown Bay stores in addition to being worthwhile long-term investments in their own right.

Lake Aquitane, Meadowvale, Ontario

Meadowvale townhouses

Meadowvale office building

Commercial building by Markborough, Phoenix, Arizona

Phoenix residence

Residence in Villages of Homestead, Florida

Natural Resources

HBOG gas plant, Caroline, Alberta

Earnings from natural resources rose to $15.3 million in 1978, an increase of 12.1% over 1977. As outlined earlier in this report, your Company disposed of one of its two principal natural resource investments, its 34.6% interest in Siebens Oil & Gas Ltd., in January 1979. In return, the Company received approximately $123 million in preferred shares of Provo Gas Producers Limited, a subsidiary of Dome Petroleum. The Siebens investment had been acquired in 1973 in exchange for the shares of Hudson's Bay Company Resources Limited, owner of mineral rights in western Canada.

The Company's share of net earnings of Siebens to January 3, 1979, the date of sale, was $6.4 million, an increase of 12% over the Siebens contribution to 1977 earnings. In addition, this year's results include accrued preference dividends of Provo from date of acquisition, amounting to $674,000.

Dividends received from Hudson's Bay Oil and Gas Company Limited (HBOG), the Company's second principal natural resource investment, amounted to $6.8 million, up 10.4% from the year before. Our share of undistributed HBOG earnings for the year (which is not included in the reported earnings of HBC) increased to $15.7 million, up 6.8% from the previous year.

Hudson's Bay Oil and Gas

In 1978, HBOG recorded improvements in financial results with higher levels of revenues, funds generated from operations and net earnings. These financial gains were wholly attributable to price increases in crude oil and natural gas, as production decreased owing to excess supply in domestic markets, government restrictions on exports and declining productivity in certain fields. The 1978 drilling program added natural gas reserves in excess of the volumes produced during the year, but additions to liquids reserves fell short of production.

Net earnings rose to $106.6 million in 1978, an increase of 7.8% from the previous year. Net earnings per common share were $5.61 compared with $5.22 in 1977. Funds generated from operations advanced 7.8% to $203.6 million or $10.72 per common share. Common share dividends totalling $1.70 per share were declared during the year, an increase of 16 cents per share from 1977.

Net revenues totalled $393.9 million, a gain of 6.6% primarily owing to higher product prices. Total expenses, exclusive of income taxes, rose 10.9% to $191.1 million, reflecting inflationary cost pressures and an expanded exploration program.

Production of crude oil averaged 55,732 barrels per day, a decrease of 3,706 barrels per day from last year. The largest part of this decrease occurred in Indonesia where natural decline caused a drop in production. Production of natural gas liquids dropped 2,308 barrels per day to average 19,142 barrels per day for 1978. This decrease was primarily attributable to the temporary curtailment of operations resulting from a fire at a gas plant. Sales of natural gas of 377.3 million cubic feet per day were 7.7% below that of the previous year, largely because of the significant increase in productive capacity that has developed in Alberta during a period of relatively flat market demand.

During 1978, capital expenditures and exploration expenses totalled $165.5 million, of which $6.9 million were reimbursed by the Alberta Government through exploration incentive credits. The resulting net outlay by the Company was $158.6 million, an increase of $28 million over comparable expenditures in 1977.

Expenditures for exploration, development and other activities are expected to increase 25% to about $185 million in 1979.

Hudson's Bay Company
Consolidated Statement of Earnings

Year Ended January 31, 1979

	This year	Last Year
Sales and revenue (Note 5)	$	$
Merchandising		
Retail	1,432,712,000	1,019,831,000
Wholesale	356,967,000	323,810,000
Fur	42,568,000	34,059,000
	1,832,247,000	1,377,700,000
Real estate	48,712,000	36,004,000
Natural resources	15,343,000	13,686,000
	1,896,302,000	1,427,390,000
Costs and expenses (Note 6)		
Merchandising	1,737,268,000	1,321,018,000
Real estate	30,870,000	21,148,000
Interest on long-term debt	41,421,000	34,813,000
Net short-term interest	6,447,000	2,538,000
	1,816,006,000	1,379,517,000
Earnings before income taxes, minority interest and extraordinary items	80,296,000	47,873,000
Income taxes (Note 5)	29,757,000	16,095,000
Earnings before minority interest and extraordinary items	50,539,000	31,778,000
Minority interest	5,894,000	1,897,000
Earnings before extraordinary items	44,645,000	29,881,000
Gain on sale of investments (Note 7)	98,367,000	–
Net earnings	143,012,000	29,881,000
Earnings per share:		
Earnings before extraordinary items	$2.74	$2.12
Net earnings	$8.79	$2.12

Consolidated statement of Retained Earnings

Year Ended January 31, 1979

	This Year	Last Year
	$	$
Retained earnings at beginning of year	231,340,000	210,640,000
Net earnings	143,012,000	29,881,000
Dividends paid	(16,111,000)	(9,181,000)
Retained earnings at end of year	358,241,000	231,340,000

Hudson's Bay Company
Consolidated Balance Sheet

January 31, 1979

	This Year	Last Year
Current assets	**$**	$
Cash	**6,478,000**	5,854,000
Short-term securities at market value	**4,740,000**	7,623,000
Accounts receivable	**594,623,000**	267,803,000
Merchandise inventories	**553,231,000**	215,713,000
Prepaid expenses	**15,841,000**	4,926,000
	1,174,913,000	501,919,000
Property for sale and future development, at cost	**125,392,000**	95,675,000
Secured receivables (Note 8)	**26,001,000**	24,851,000
Investments (Note 9)	**396,796,000**	68,456,000
Fixed assets		
Land, at cost	**106,032,000**	34,934,000
Buildings, at cost	**372,265,000**	257,074,000
Equipment and leasehold improvements, at cost	**240,961,000**	148,653,000
	719,258,000	440,661,000
Less accumulated depreciation	**143,490,000**	127,830,000
	575,768,000	312,831,000
Deferred charges	**10,385,000**	7,898,000
Goodwill	**61,541,000**	22,217,000
	2,370,796,000	1,033,847,000

On Behalf of the Board:

Director

Director

	This Year	Last Year
Current liabilities	**$**	$
Bank indebtedness	**189,606,000**	46,634,000
Notes payable	**214,348,000**	24,837,000
Accounts payable and accrued expenses	**344,553,000**	137,226,000
Income taxes payable	**14,062,000**	5,822,000
Long-term debt due within one year	**39,779,000**	5,422,000
	802,348,000	219,941,000
Long-term debt (Note 10)	**685,325,000**	466,200,000
Pensions (Note 11)	**37,557,000**	5,128,000
Deferred income taxes	**54,937,000**	45,306,000
Minority interest in subsidiaries	**58,505,000**	21,308,000
Shareholders' equity		
Capital stock (Note 12)		
$1.80 Cumulative Redeemable Preferred shares	**136,329,000**	–
Ordinary shares without par value	**237,554,000**	44,624,000
	373,883,000	44,624,000
Retained earnings	**358,241,000**	231,340,000
	732,124,000	275,964,000
	2,370,796,000	1,033,847,000

Hudson's Bay Company
Consolidated Statement of Assets Employed

January 31, 1979

	This Year	Last Year
Merchandising	**$**	$
Inventories	**553,231,000**	215,713,000
Accounts receivable	**579,687,000**	255,160,000
Accounts payable	**(333,042,000)**	(127,539,000)
Other current assets, net	**12,162,000**	5,814,000
Working capital (see below)	**812,038,000**	349,148,000
Fixed assets	**474,303,000**	222,058,000
Investments	**231,003,000**	23,960,000
Other assets	**12,048,000**	11,572,000
Pensions	**(37,557,000)**	(5,128,000)
Goodwill	**30,215,000**	–
Deferred income taxes	**(26,519,000)**	(21,149,000)
	1,495,531,000	580,461,000
Real estate		
Working capital (deficiency) (see below)	**(1,154,000)**	2,100,000
Property for sale and future development	**125,392,000**	95,675,000
Fixed assets and investments:		
Shopping centres	**61,827,000**	55,010,000
Commercial	**59,711,000**	41,198,000
Residential	**12,310,000**	9,466,000
Secured receivables	**22,709,000**	20,044,000
Other assets	**1,629,000**	1,133,000
Goodwill	**31,326,000**	22,217,000
Deferred income taxes	**(28,418,000)**	(24,157,000)
	285,332,000	222,686,000
Natural resources		
Hudson's Bay Oil and Gas Company Limited	**10,095,000**	10,095,000
Siebens Oil & Gas Ltd.	**–**	19,500,000
Provo Gas Producers Limited	**123,989,000**	–
	134,084,000	29,595,000
Assets employed	**1,914,947,000**	832,742,000
Provided from		
Long-term debt	**685,325,000**	466,200,000
Short-term borrowings, net (see below)	**438,993,000**	69,270,000
	1,124,318,000	535,470,000
Minority interest in subsidiaries	**58,505,000**	21,308,000
Shareholders' equity		
Preferred shares	**136,329,000**	–
Ordinary shares	**237,554,000**	44,624,000
Retained earnings	**358,241,000**	231,340,000
	732,124,000	275,964,000
	1,914,947,000	832,742,000

Working capital is shown before deduction of short-term borrowings, net–which comprises bank borrowings, short-term notes payable and current portion of long-term debt, less short-term securities.

Hudson's Bay Company
Consolidated Statement of Changes in Financial Position
Year Ended January 31, 1979

	This Year	Last Year
Source of Funds	**$**	$
Earnings before minority interest and extraordinary items	**50,539,000**	31,778,000
Items not affecting working capital		
Equity in undistributed earnings of affiliates and joint ventures	**(7,656,000)**	(5,035,000)
Depreciation and amortization	**22,804,000**	17,366,000
Deferred income taxes	**9,625,000**	4,100,000
Provided from operations	**75,312,000**	48,209,000
Issue of ordinary shares	**192,930,000**	842,000
Issue of preferred shares	**136,329,000**	–
Proceeds from sale of investments	**128,836,000**	–
Long-term debt	**50,197,000**	77,062,000
Exercise of Markborough Properties Limited warrants	**4,156,000**	–
Decrease in secured receivables	**–**	6,974,000
Other investments	**–**	1,284,000
	587,760,000	134,371,000
Use of Funds		
Capital expenditures:		
Merchandising	**46,793,000**	36,399,000
Real estate	**12,122,000**	6,676,000
Property for sale and future development—net	**25,491,000**	17,658,000
Acquisitions:		
Simpsons, Limited	**144,322,000**	–
Zeller's Limited	**75,787,000**	–
Markborough Properties Limited	**40,532,000**	–
Investments:		
Simpsons-Sears Limited	**202,913,000**	–
Provo Gas Producers Limited	**123,316,000**	–
Eaton/Bay Financial Services Limited	**1,812,000**	16,042,000
Other	**9,071,000**	–
Reduction of long-term debt	**46,682,000**	11,678,000
Dividends:		
Ordinary shareholders	**16,111,000**	9,181,000
Minority shareholders	**838,000**	716,000
Increase in secured receivables	**1,150,000**	–
Deferred charges	**2,125,000**	2,349,000
Other—net	**3,296,000**	(273,000)
	752,361,000	100,426,000
	(164,601,000)	33,945,000
Working capital acquired on purchase of subsidiaries	**255,188,000**	–
Increase in working capital	**90,587,000**	33,945,000
Working capital at beginning of year	**281,978,000**	248,033,000
Working capital at end of year	**372,565,000**	281,978,000

Hudson's Bay Company
Notes to the Consolidated Financial Statements

Year Ended January 31, 1979

1. Significant Accounting Policies

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada taking into consideration events occurring between January 31, 1979 and March 16, 1979, the date of their approval by the Board of Directors. The significant policies are summarized below:

a) The consolidated financial statements include Hudson's Bay Company and all its subsidiary companies.

b) The Company follows the equity method in accounting for its investments in joint ventures and in companies in which the Company's ownership interest is substantial (where shares carrying more than 20% of the voting rights are held free of contractual provisions which might reduce the Company's shareholdings below such 20% interest) and the Company is able to elect a significant proportion of the Board of Directors of the investee company. Under the equity method, investments are recorded at cost plus the Company's equity in undistributed earnings since acquisition. Investments in other companies are accounted for at cost with dividends being reflected in earnings when received with respect to common shares and non-cumulative preferred shares and as accrued in the case of cumulative preferred shares.

c) The accounts of the U.S. and U.K. subsidiaries are translated into Canadian dollars at approximately the exchange rates prevailing at balance sheet dates.

d) Interest and real estate taxes are capitalized to the extent that they relate to properties which are either held for sale or development or are under construction. The amount so capitalized in the current year includes interest of $7,382,000 (last year $5,569,000).

e) Earnings per share calculations are based on the weighted average number of shares outstanding during the year.

f) In accordance with recognized industry practice, merchandise accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

g) Merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins with cost determined on a first-in, first-out basis.

h) Buildings (other than income properties), equipment and leasehold improvements are depreciated, using the straight-line method, at rates which will fully depreciate the assets over their estimated useful lives. The depreciation rates applicable to the various classes of assets are as follows:

Buildings	2- 5%
Equipment	7-20%
Leasehold improvements	3-10%

Buildings held for the purpose of producing rental income are depreciated on a 3% 40-year sinking fund basis. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 3% compound interest, which together will fully depreciate each building over its estimated useful life.

i) Deferred charges principally comprise debenture discount and expense which is amortized on the straight-line method over the terms of the issues to which it relates. The amortization is included with interest on long-term debt in the consolidated statement of earnings.

j) Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of Markborough Properties Limited and Zeller's Limited at the respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, $39,324,000, all of which arose in the year ended January 31, 1979, is being amortized on the straight-line method over a period of forty years.

k) Current pension costs, substantially all of which arise under trusteed pension plans, are charged to operations. The costs of plan improvements are charged to operations over reasonable periods as they are funded.

2. SIMPSONS, LIMITED ("Simpsons")

Under the terms of an offer dated November 27, 1978 and a variation to that offer dated December 15, 1978, the Company acquired 41,542,767 common shares (88.3%) of Simpsons on the basis of one ordinary share and .2825 preferred shares series A for each eight common shares of Simpsons, Limited. The total consideration, including cash paid for fractional shares and costs of acquisition, was $144,322,000.

This transaction has been accounted for by the purchase method and the assets and liabilities of Simpsons as at January 31, 1979 are included in the consolidated balance sheet of the Company. The operating results of Simpsons will be consolidated with effect from February 1, 1979. The cost of acquisition has been allocated as follows:

	$
Net assets of Simpsons at January 31, 1979, at book value	138,703,000
Minority interest therein	(16,228,000)
Adjustment to fair value for equity acquired in net assets of Simpsons	21,847,000
Cost, being the fair value of consideration paid	144,322,000

Represented by:	$
Inventories	119,319,000
Accounts receivable	207,638,000
Investments	8,619,000
Fixed assets	190,269,000
Other assets	5,124,000
Long-term debt	(170,080,000)
Pension obligations	(32,500,000)
Other liabilities	(173,125,000)
Deferred income taxes	5,286,000
Minority interest	(16,228,000)
	144,322,000

3. ZELLER'S LIMITED ("Zellers")

Under the terms of an offer to purchase dated August 30, 1978, the Company acquired 7,474,588 common shares of Zellers on the basis of $16.50 plus one ordinary share of Hudson's Bay Company for four common shares of Zellers. After accounting for fractions of shares the acquisition was satisfied by cash payments totalling $30,846,000 and the issuance of 1,868,097 ordinary shares. Other acquisition costs amounted to $775,000. This acquisition, together with 27,850 common shares purchased for cash, brings the total interest to 57.1% of the outstanding common shares held by persons other than subsidiaries of Zellers.

This transaction has been accounted for by the purchase method. The assets, liabilities and operating results of Zellers have been consolidated with effect from October 1, 1978. The cost of acquisition has been allocated as follows:

	$
Net assets of Zellers at September 30, 1978, at book value	81,142,000
Minority interest therein	(35,824,000)
Excess of cost over fair value of net tangible assets at September 30, 1978	30,469,000
Cost, being the fair value of consideration paid	75,787,000

Represented by:	
Accounts receivable	46,551,000
Inventories	150,852,000
Fixed assets	33,854,000
Other assets	10,860,000
Long-term debt	(45,530,000)
Other liabilities	(110,512,000)
Deferred income taxes	(4,933,000)
Minority interest	(35,824,000)
Goodwill	30,469,000
	75,787,000

4. MARKBOROUGH PROPERTIES LIMITED ("Markborough")

At January 31, 1978 the Company owned 2,573,002 common shares (64.3%) of Markborough. Under the terms of an offer to purchase dated June 30, 1978, the Company acquired a further 1,854,474 shares. This acquisition was satisfied by the issuance of one ordinary share of Hudson's Bay Company for one common share of Markborough. The cost of 119,000 Markborough warrants previously held by the Company ($1,309,000) and other acquisition costs of $176,000 have been treated as a part of the total cost of the acquisition. This acquisition, together with 4,963 common shares subsequently purchased for cash, brings the total interest in Markborough at January 31, 1979 to 99.8%.

The aggregate cost of these purchases of additional shares of Markborough has been allocated as follows:

	$
Reduction in minority interest in Markborough	24,565,000
Adjustments of carrying values:	
Property for sale and future development	4,226,000
Income properties	1,200,000
Other assets	1,314,000
Goodwill	9,227,000
Cost, being the fair value of consideration paid	40,532,000

5. INVESTMENT INCOME

Investment income, accounted for under the policy set out in note 1 b), is included in revenue. The Company's equity in the pretax income of companies and joint ventures accounted for under the equity accounting method amounts to $15,062,000 (last year $9,817,000) and the related income taxes of $4,798,000 (last year $2,837,000) are included within the consolidated income tax charge. Dividends received from other companies amount to $7,489,000 (last year $6,277,000).

6. DEPRECIATION

Expenses include depreciation provided in accordance with the policy outlined in note 1 h) as follows: on merchandising assets $19,871,000 (last year $15,287,000); on real estate assets $1,430,000 (last year $1,186,000).

7. GAIN ON SALE OF INVESTMENTS

The gain of $98,367,000 is after deducting income taxes of $3,128,000 and results from the sale of investments in Siebens Oil & Gas Ltd. and The Glenlivet Distillers Limited.

8. SECURED RECEIVABLES

Secured receivables include mortgages which arise principally from land transactions and loans outstanding under the employee share purchase plan. They bear interest at an average rate of 8.4%.

	$
Total secured receivables	30,431,000
Less amounts due within one year classified as accounts receivable	4,430,000
	26,001,000

Maturities during the five years ending January 31, 1984 are as follows: 1980—$4,430,000; 1981—$5,404,000; 1982—$353,000; 1983—$5,560,000; 1984—$436,000.

Under certain conditions, the amounts due may be paid prior to maturity.

9. INVESTMENTS

Investments comprise the following:

	This Year	Last Year
	$	$
Simpsons-Sears Limited	202,913,000	–
Eaton/Bay Financial Services Limited	18,810,000	16,237,000
Hudson's Bay Oil and Gas Company Limited	10,095,000	10,095,000
Provo Gas Producers Limited	123,316,000	–
Siebens Oil & Gas Ltd.	–	19,500,000
Other	41,662,000	22,624,000
	396,796,000	68,456,000

a) Simpsons-Sears Limited ("Sears")

Between December 27, 1978 and January 10, 1979, the Company acquired 27,206,334 Class B shares of Sears at a total cost, comprising preferred shares Series A of Hudson's Bay Company and cash, of $202,913,000. This investment, which will be accounted for by the equity accounting method from February 1, 1979, represents 88.3% of the total Class B shares, 44.1% of the total voting shares and 35.7% of all outstanding shares of Sears.

	Per Share	
	$	$
Investment		
At cost	7.46	202,913,000
At underlying Sears book value January 31, 1979	5.72	155,700,000
At quoted market The Toronto Stock Exchange January 31, 1979	8.37	222,717,000

b) Eaton/Bay Financial Services Limited ("E/BFS")

On October 5, 1977, the Company acquired 531,619 common shares (34.7%) of E/BFS at a total cost of $16,042,000. The investment was subsequently increased to 581,752 common shares (38.0%) at an incremental cost of $1,812,000. This investment is accounted for by the equity accounting method.

c) Hudson's Bay Oil and Gas Company Limited ("H.B.O.G.")

The investment in H.B.O.G., carried at cost, consists of 4,008,656 common shares of which 2,083,334 have been placed in escrow with The Royal Trust Company pursuant to the Trust Indenture providing for the Company's $100 million principal amount of 6% exchangeable subordinated debentures.

	Per Share	
	$	$
Investment		
At cost	2.52	10,095,000
At underlying H.B.O.G. book value December 31, 1978	25.43	101,630,000
At quoted market The Toronto Stock Exchange January 31, 1979	55.75	223,483,000

The common shares of H.B.O.G. are held 52.8% by Continental Oil Company, 21.1% by the Company and 26.1% by approximately 7,500 other shareholders.

d) Provo Gas Producers Limited ("Provo")

The investment in Provo, recorded at cost, consists of 4,110,516 preferred shares, Series B, and a further 4,110,517 preferred shares, Series C, of that Company. The Series B and Series C shares were issued by Provo and acquired by the Company on January 3, 1979. These preferred shares will be exchangeable for equivalent preferred shares of Dome Petroleum Limited, Provo's parent, in mid 1979 at the option of either the Company or Dome Petroleum Limited. The two series of preferred shares carry dividends of 7% and 7.25%, respectively, and are retractable in whole or in part at the Company's option at the end of each three and five year period, respectively.

e) Siebens Oil & Gas Ltd. ("Siebens")

The investment in Siebens represented 34.6% of the total issued common shares of that company. The investment was accounted for under the equity method until it was sold in January 1979.

f) Other

Other investments, primarily joint ventures, include merchandising interests and commercial, industrial and residential real estate interests accounted for by the equity accounting method and carried at $32,889,000 (last year $21,299,000).

10. LONG-TERM DEBT

	This Year	Last Year
	$	$
Secured on Property		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	10,205,000	11,045,000
7½% first mortgage bonds series B due 1991	6,870,000	7,272,000
11½% first mortgage bonds series C due 1995	31,500,000	32,375,000
9⅞% first mortgage bonds series D due 1997	41,000,000	45,000,000
10% first mortgage bonds series E due 1998	32,434,000	–
Hudson's Bay Company Developments Limited		
Mortgages 9.9% average repayable by instalments to 2002	15,113,000	15,494,000
Hudson's Bay Company Properties (Quebec) Limited		
Mortgages 10.0% average repayable by instalments to 1986	220,000	1,002,000
Markborough Properties Limited		
8½% sinking fund debentures due 1983	7,000,000	8,500,000
Mortgages and obligations on property for sale and future development 10.8% average repayable by instalments to 1990	39,239,000	40,469,000
Mortgages on income properties 9.7% average repayable by instalments to 2004	46,943,000	31,746,000
Fields Stores Limited		
Mortgage loan 9¾% due 1992	614,000	–
	231,138,000	192,903,000
Secured on Accounts Receivable		
Hudson's Bay Company Acceptance Limited		
6% debentures series A due 1980	10,000,000	10,000,000
5¾% debentures series B due 1983	10,000,000	10,000,000
9¾% debentures series C due 1989	18,719,000	18,719,000
8¾% debentures series D due 1991	20,000,000	20,000,000
8¼% debentures series E due 1993	20,000,000	20,000,000
10½% debentures series F due 1996	35,000,000	35,000,000
Simpsons Acceptance Company Limited		
6% debentures series B due 1981	15,000,000	–
5½% debentures series C due 1982	10,000,000	–
5¾% debentures series D due 1984	10,000,000	–
6¾% debentures series E due 1986	10,000,000	–
8⅜% debentures series F due 1992	10,000,000	–
8⅜% debentures series G due 1992	15,000,000	–
9⅞% debentures series H due 1997	25,000,000	–
	208,719,000	113,719,000

Secured by Floating Charge on assets of subsidiaries		
Zeller's Limited		
5½% sinking fund debentures series B due 1982 . . .	2,356,000	–
7% sinking fund debentures series C due 1986 . . .	3,524,000	–
10¼% sinking fund debentures series 1974 due 1994	13,569,000	–
Marshall Wells Limited		
7½% sinking fund debentures series A due 1982 . . .	1,531,000	–
	20,980,000	–
Secured by Various Assets of Fields Stores Limited		
Bank loan at prevailing bank rate (12% January 31, 1979) plus ¾% due 1980	16,947,000	–
Unsecured or guaranteed by certain subsidiaries		
Hudson's Bay Company		
9¾% series C notes due 1979	30,000,000	30,000,000
10¼% notes due 1981	35,000,000	35,000,000
Simpsons, Limited		
5½% debentures series C due 1979	50,000	–
5¾% debentures series D due 1984	4,978,000	–
5¾% debentures series E due 1985.	6,443,000	–
6½% debentures series F due 1987.	6,537,000	–
9½% debentures series G due 1989	8,420,000	–
8⅜% debentures series H due 1993	18,129,000	–
9⅛% debentures series I due 1994	11,459,000	–
11¾% debentures series J due 1995.	20,364,000	–
	141,380,000	65,000,000
Subordinated		
Hudson's Bay Company		
6% exchangeable debentures due 1993, sinking fund commencing 1984	100,000,000	100,000,000
Zeller's Limited		
5½% convertible subordinated debentures series 1971 due 1991	5,940,000	–
	105,940,000	100,000,000
	725,104,000	471,622,000
Amounts due within one year	(39,779,000)	(5,422,000)
	685,325,000	466,200,000

Maturities and redemption and sinking fund requirements during the five years ending January 31, 1984 are as follows: 1980–$39,779,000; 1981–$38,502,000; 1982–$82,811,000; 1983–$25,259,000; 1984–$28,545,000.

The holders of the Hudson's Bay Company Acceptance Limited 9¾% debentures will have the right to be prepaid in 1980.

The holders of Hudson's Bay Company 6% exchangeable subordinated debentures have the right to exchange such debentures for outstanding common shares of Hudson's Bay Oil and Gas Company Limited at an exchange price of $48 per share at any time prior to maturity.

The majority of the long-term debt is subject to redemption at the option of the issuers at various times or under certain conditions. For the most part redemption earlier than within three or four years of maturity of the securities would require the payment of redemption premiums.

11. PENSIONS

Based on actuarial valuations as at the end of 1977, the unfunded liabilities for past service under pension plans are estimated to aggregate approximately $42,700,000 at January 31, 1979 (January 31, 1978 $10,500,000), of which $37,557,000 (last year $5,128,000) has been provided for in the consolidated balance sheet. The increase during the year is primarily attributable to the inclusion of the liability for the pension plan of Simpsons, Limited at January 31, 1979. (See note 2). Funding payments are expected to extinguish substantially all of the unfunded liabilities over the next twelve years.

12. CAPITAL STOCK

At a Special General Meeting of the Shareholders held on December 13, 1978, the Company was continued under the Canada Business Corporations Act and, in accordance with the articles of continuance, the authorized classes of shares were stated to consist of ordinary shares without nominal or par value and preferred shares without nominal or par value. A maximum of 11,750,000 of the preferred shares have been designated as $1.80 cumulative redeemable preferred shares series A.

	Number of Shares	$
$1.80 cumulative redeemable preferred shares series A (stated capital $22.50 each)		
Issued in partial payment for common shares of Simpsons, Limited and Class B shares of Simpsons-Sears Limited	6,059,067	136,329,000
Ordinary Shares		
Issued and outstanding at January 31, 1977	14,095,593	43,782,000
Issued under employee share purchase plan in the year ended January 31, 1978	59,175	842,000
Issued and outstanding at January 31, 1978	14,154,768	44,624,000
Issued in the year ended January 31, 1979:		
Under employee share purchase plan	25,265	468,000
In payment for common shares of Markborough Properties Limited	1,854,474	38,944,000
In partial payment for common shares of Zeller's Limited	1,868,097	43,900,000
In partial payment for common shares of Simpsons, Limited	5,189,004	109,618,000
Issued and outstanding at January 31, 1979	23,091,608	237,554,000

13. JOINT VENTURE OPERATIONS

The Company's share of real estate joint venture operations accounted for by the equity method is summarized as follows:

	This Year	Last Year
Assets	$	$
Accounts receivable	10,888,000	5,070,000
Property for sale and future development	42,498,000	26,553,000
Fixed assets	124,839,000	74,756,000
	178,225,000	106,379,000
Liabilities and Equity		
Bank indebtedness	21,549,000	16,138,000
Accounts payable	18,566,000	6,271,000
Long-term debt	109,700,000	70,415,000
	149,815,000	92,824,000
Investment in real estate joint ventures	28,410,000	13,555,000
	178,225,000	106,379,000

	This Year	Last Year
Revenue and Earnings	$	$
Gross revenue	20,416,000	15,470,000
Interest	6,554,000	4,323,000
Depreciation	1,402,000	821,000
Other expenses	7,883,000	8,711,000
Pretax earnings from real estate joint ventures	4,577,000	1,615,000

14. COMMITMENTS AND CONTINGENCIES

Minimum annual rentals under major property leases amount to approximately $40,000,000 for which the remaining average term is 17 years.

The Company has commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. In the event that the Company had to meet any of these commitments it would have a claim on the assets of the applicable development. The value of the assets of each development exceeds the related contingent commitment.

15. DIRECTORS AND OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries to its directors and senior officers, as defined in The Ontario Securities Act, amounted to $1,337,000 during the year ended January 31, 1979.

Loans due from officers of the Company at January 31, 1979, principally in respect of the share purchase plan, amounted to $796,000 (last year $829,000).

16. EVENT SUBSEQUENT TO YEAR END

Under an aggrement dated February 7, 1979 between Hudson's Bay Company and a group of underwriters led by Morgan Stanley International Limited, Hudson's Bay Company sold to the underwriters on February 22, 1979 U.S. $50,000,000 principal amount of 10% Debentures due 1994 for the sum of U.S. $49,500,000.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Hudson's Bay Company and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Markborough Properties Limited and Simpsons, Limited which are consolidated and for other companies accounted for by the equity method in these financial statements, we have relied on the reports of the auditors who have examined their financial statements for their respective latest fiscal years, and have obtained such other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hudson's Bay Company as at January 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Toronto, Canada
March 16, 1979

Hudson's Bay Company
Ten Year Consolidated Financial Summary

		1978	1977
Results for year ($000's)	Sales and revenue		
	Retail—The Bay	**1,166,230**	1,019,831
	—Zellers	**266,482**	—
	Wholesale	**356,967**	323,810
	Fur	**42,568**	34,059
	Merchandising	**1,832,247**	1,377,700
	Real estate	**48,712**	36,004
	Natural resources	**15,343**	13,686
		1,896,302	1,427,390
	Fur consignment sales	**329,773**	283,000
	Source of earnings		
	Retail	**76,495**	40,912
	Wholesale	**7,392**	8,064
	Fur	**11,092**	7,706
	Merchandising	**94,979**	56,682
	Real estate	**17,842**	14,856
	Natural resources	**15,343**	13,686
	Interest on long-term debt	**(41,421)**	(34,813)
	Net short-term interest	**(6,447)**	(2,538)
	Earnings before income taxes and minority interest	**80,296**	47,873
	Income taxes	**29,757**	16,095
	Earnings before minority interest	**50,539**	31,778
	Minority interest	**5,894**	1,897
	Net earnings	**44,645**	29,881
	Dividends	**16,111**	9,181
	Earnings retained	**28,534**	20,700
	Cash flow	**75,312**	48,209
	Capital expenditures	**58,915**	43,075
	Depreciation	**21,301**	16,473
Year end financial position ($000's)	Merchandising	**1,495,531**	580,461
	Real estate	**285,332**	222,686
	Natural resources	**134,084**	29,595
	Assets employed	**1,914,947**	832,742
	Debt	**1,124,318**	535,470
	Minority interest	**58,505**	21,308
	Shareholders' equity	**732,124**	275,964
Per share results (Dollars)	Net earnings	**2.74**	2.12
	Dividends	**.91**	.65
	Shareholders' equity	**25.80**	19.50
	Including equity in undistributed earnings of H.B.O.G.		
	Net earnings	**3.71**	3.16
	Shareholders' equity	**29.76**	24.86
Shareholders and employees	Number of ordinary shareholders	**30,600**	20,870
	Ordinary shares outstanding (000's)	**23,092**	14,155
	Range in share price (Dollars)	**24½–17⅛**	19⅛–14⅛
	Number of employees	**42,000**	20,000

Note: Where appropriate, figures have been restated and extraordinary items have been excluded for the purpose of comparability.

1976	1975	1974	1973	1972	1971	1970	1969
992,575	892,766	780,854	641,063	538,989	440,685	406,096	393,556
—	—	—	—	—	—	—	—
263,461	231,995	190,875	153,456	126,414	111,612	102,788	91,312
26,987	21,178	22,304	21,190	15,475	13,565	10,172	12,787
1,283,023	1,145,939	994,033	815,709	680,878	565,862	519,056	497,655
52,945	32,174	17,852	4,294	862	—	—	—
10,480	8,020	6,308	5,853	5,485	4,927	4,410	4,193
1,346,448	1,186,133	1,018,193	825,856	687,225	570,789	523,466	501,848
244,344	185,252	175,661	167,250	131,666	109,238	81,723	92,258
34,922	34,868	32,308	27,666	23,738	19,225	17,929	20,319
7,622	6,897	5,808	4,051	3,316	3,137	2,668	2,361
6,286	4,537	4,719	4,968	2,993	2,541	328	1,033
48,830	46,302	42,835	36,685	30,047	24,903	20,925	23,713
23,207	14,615	10,313	2,191	715	—	—	—
10,480	8,020	6,308	5,852	5,485	4,927	4,410	4,193
(28,097)	(24,161)	(19,202)	(11,714)	(7,464)	(6,907)	(5,525)	(3,503)
(5,346)	(2,508)	(5,291)	254	(1,404)	188	(109)	(614)
49,074	42,268	34,963	33,268	27,379	23,111	19,701	23,789
21,184	18,548	15,514	15,158	11,725	9,798	8,729	10,832
27,890	23,720	19,449	18,110	15,654	13,313	10,972	12,957
3,080	1,716	1,029	446	—	—	—	—
24,810	22,004	18,420	17,664	15,654	13,313	10,972	12,957
8,391	8,362	8,286	7,661	7,048	7,048	6,828	6,980
16,419	13,642	10,134	10,003	8,606	6,265	4,144	5,977
47,645	42,760	34,010	29,795	25,507	21,277	18,207	20,419
38,163	29,586	41,715	56,588	27,282	17,849	11,124	14,039
14,598	13,157	11,485	9,314	7,607	6,342	5,963	6,966
505,857	445,564	451,201	378,913	308,929	272,711	246,665	235,013
208,179	163,793	156,791	137,794	7,630	5,127	2,069	1,635
23,881	20,142	17,763	16,305	10,095	10,095	10,095	10,095
737,917	629,499	625,755	533,012	326,654	287,933	258,829	246,743
463,473	375,184	387,187	306,543	130,219	100,478	78,696	69,871
20,022	17,973	16,618	16,180	754	380	—	—
254,422	236,342	221,950	210,289	195,681	187,075	180,133	176,872
1.77	1.58	1.33	1.29	1.16	.98	.81	.96
.60	.60	.60	.56	.52	.52	.50	.51
18.05	16.90	15.93	15.23	14.44	13.80	13.29	13.05
2.55	2.28	1.94	1.67	1.39	1.17	.96	1.09
22.36	20.46	18.81	17.51	16.38	15.13	14.43	14.04
21,861	22,806	24,036	24,474	24,880	25,558	28,945	32,142
14,096	13,985	13,936	13,809	13,553	13,553	13,553	13,553
20⅞–13½	18⅝–14¼	20–9¾	22¾–15	21⅛–16½	20–14½	22–11½	25¼–17
20,000	20,000	20,000	18,000	17,000	16,000	15,000	15,000

Condensed Financial Statements – Simpsons and Zellers

Simpsons, Limited

Operating results for the fiscal year	56 Weeks ended Jan. 31, 1979	52 Weeks ended Jan. 31, 1979 (unaudited)	52 Weeks ended Jan. 4, 1978
	$	$	$
Net sales and revenues	**749,597,000**	**708,654,000**	642,946,000
Costs and expenses	**735,513,000**	**691,008,000**	630,078,000
Earnings before income taxes	**14,084,000**	**17,646,000**	12,868,000
Income taxes	**4,975,000**	**6,827,000**	4,785,000
Earnings before equity earnings	**9,109,000**	**10,819,000**	8,083,000
Equity in net earnings of shopping centres	**1,530,000**	**1,530,000**	1,058,000
Earnings from on-going operations	**10,639,000**	**12,349,000**	9,141,000
Equity in net earnings of Simpsons-Sears Limited	**21,769,000**	**20,105,000**	18,560,000
Net earnings from operations*	**32,408,000**	**32,454,000**	27,701,000
Per share	**$0.69**	**$0.69**	$0.59

Financial position at fiscal year-end

	This Year	Last Year		This Year	Last Year
	$	$		$	$
Current assets	**334,863,000**	298,424,000	Current liabilities	**173,124,000**	120,043,000
			Long-term debt	**170,080,000**	195,780,000
			Deferred income taxes	**13,384,000**	13,908,000
Investments and Other assets	**10,113,000**	179,419,000		**356,588,000**	329,731,000
			Capital stock	**36,872,000**	36,533,000
Fixed assets, net	**150,316,000**	147,451,000	Retained earnings	**101,832,000**	259,030,000
	495,292,000	625,294,000		**495,292,000**	625,294,000

Zeller's Limited

Operating results for the fiscal year	This Year	Last Year
	$	$
Net sales and revenues	**649,149,000**	586,010,000
Costs and expenses	**620,167,000**	566,470,000
Earnings before income taxes	**28,982,000**	19,540,000
Income taxes	**12,299,000**	7,932,000
Net earnings from operations*	**16,683,000**	11,608,000
Per share	**$1.26**	$0.87

Financial position at fiscal year-end

	This Year	Last Year		This Year	Last Year
	$	$		$	$
Current assets	**229,436,000**	194,604,000	Current liabilities	**123,558,000**	97,284,000
			Long-term debt	**42,556,000**	47,754,000
			Deferred income taxes	**5,057,000**	5,059,000
				171,171,000	150,097,000
			Capital stock	**9,085,000**	9,223,000
Fixed assets, net	**33,303,000**	33,858,000	Retained earnings	**82,483,000**	69,142,000
	262,739,000	228,462,000		**262,739,000**	228,462,000

*Excludes extraordinary items

Corporate Information

Registered Office
Hudson's Bay House, 77 Main Street,
Winnipeg, Manitoba R3C 2R1

Corporate Office
2 Bloor Street East,
Toronto, Ontario M4W 3H7

Principal Bankers
Canadian Imperial Bank of Commerce
Bank of Montreal
The Royal Bank of Canada

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal, Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings
Ordinary shares—London, Montreal, Toronto and Winnipeg
Preferred shares—Montreal, Toronto and Winnipeg

Auditors
Peat, Marwick, Mitchell & Co.

Principal Investments

Merchandising

Simpsons-Sears Limited
Operates department stores and catalogue offices throughout Canada
27,206,334 common shares (35.7%)

The G. W. Robinson Company, Limited
Operates department stores in Hamilton—St. Catharines—Niagara area
108,178 common shares (27%)

Eaton/Bay Financial Services Limited
Markets financial services
581,752 common shares (38%)

Natural Resources

Hudson's Bay Oil and Gas Company Ltd.
Petroleum exploration and production
4,008,656 common shares (21.1%)

Provo Gas Producers Limited
Wholly-owned subsidiary of Dome Petroleum Limited
$123,316,000 preferred shares

Real Estate Holdings

	Net Interest
Hudson's Bay Company	
15 shopping centres	2,668,000 sq. ft.
4 office/commercial buildings	490,000 sq. ft.
Simpsons, Limited	
5 shopping centres	1,118,000 sq. ft.
1 office building	350,000 sq. ft.
Markborough Properties Limited	
11 shopping centres	493,000 sq. ft.
4 office buildings	602,000 sq. ft.
17 industrial buildings	571,500 sq. ft.
2 hotels	286 rooms
3 apartment buildings	583 suites

Markborough also owns land for residential development

Principal Subsidiary Companies

(wholly-owned unless otherwise indicated)

Incorporated in Canada

Hudson's Bay Company Acceptance Limited
Purchases accounts receivable

Hudson's Bay Company Developments Limited
- Hudson's Bay Company Properties Limited
- Hudson's Bay Company Properties (Quebec) Limited

Property owning companies

Markborough Properties Limited (99.8%)
- Markland Properties, Inc.
- Markborough California, Inc.
- Markborough Texas Inc.

Property development companies

Simpsons, Limited (88.3%)
Holding company
- The Robert Simpson Company Limited
  - The Robert Simpson Montreal Limited
  - The Robert Simpson Eastern, Limited

  Department store companies
- Simpsons Acceptance Company Limited
  Purchases accounts receivable

Zeller's Limited (57.1%)
Operates department stores
- Fields Stores Limited
  Operates family clothing stores
- Marshall Wells Limited
  Distributes hardware

Incorporated in the United States

Hudson's Bay Company Fur Sales Incorporated
Fur brokers

Incorporated in England

Hudson's Bay and Annings Limited (59%)
Fur brokers

Hudson's Bay Company

Board

Ian A. Barclay
Vancouver
Chairman of the Board,
British Columbia Forest Products Limited

Marcel Bélanger
Quebec
President, Gagnon et Bélanger Inc.

Sir Eric Drake
London, England
Company Director

C. W. (Wally) Evans
Toronto
President, The Bay
Hudson's Bay Company

Gurth C. Hoyer Millar
London, England
Director, J. Sainsbury Ltd.

G. Richard Hunter ♦
Winnipeg
Partner, Pitblado & Hoskin

Martin W. Jacomb ★
London, England
Vice-Chairman, Kleinwort, Benson Limited

Josette D. Leman
Montreal
Travel Consultant,
McGregor Travel Co. Ltd.

Alexander J. MacIntosh ★
Toronto
Partner, Blake, Cassels & Graydon

W. Donald C. Mackenzie ♦
Calgary
President,
W. D. C. Mackenzie Consultants Ltd.

Allan M. McGavin ♦
Vancouver
Chairman of the Board.
McGavin Foods Limited

Donald S. McGiverin ★ ♦
Toronto
President, Hudson's Bay Company

Dawn R. McKeag
Winnipeg
Company Director

John H. Moore ★
London, Ontario
Chairman & Chief Executive Officer,
Brascan Limited

George T. Richardson ★ ♦
Winnipeg
President, James Richardson & Sons, Limited

Joseph Segal
Vancouver
Chairman of the Board,
Zeller's Limited

The Rt. Hon. Lord Trend
Oxford, England
Rector, Lincoln College

Donald O. Wood
Toronto
Corporate Vice-President, Systems and
Distribution Services, Hudson's Bay Company

Peter W. Wood ★
Toronto
Executive Vice-President,
Hudson's Bay Company

★ Member of Executive Committee
♦ Member of Audit Committee

Officers

George T. Richardson
Governor

Alexander J. MacIntosh
Deputy Governor

Donald S. McGiverin
President

Peter W. Wood
Executive Vice-President

Malcolm H. MacKenzie
Corporate Vice-President, Personnel

John G. W. McIntyre
Corporate Vice-President,
Real Estate and Development

T. Iain Ronald
Corporate Vice-President, Finance

Donald O. Wood
Corporate Vice-President,
Systems and Distribution Services

Louis J. Henry
Vice-President, Furs

A. Rolph Huband
Vice-President and Secretary

Peter F. S. Nobbs
Treasurer

Operating Groups and Principal Subsidiaries

THE BAY

Senior Management

C. W. (Wally) Evans
President, The Bay

Al A. Guglielmin
General Manager, Department Stores

J. Evan Church
Vice-President, Merchandising, The Bay

Arthur A. Adamic
General Manager, Western Region

Hal L. Spelliscy
General Manager, Calgary Region

J. Blair Bustard
General Manager, Edmonton Region

D. Keith McConnell
General Manager, Central Region

Pierre Dalpé
General Manager, Montreal Region

George J. Kosich
General Manager, Toronto Region

Al W. Brent
General Manager, Ottawa Region

Peter W. Schmidt
General Manager, Food Services

Marvin E. Tiller
General Manager, National Stores Department

J. Lorne Klapp
General Manager, Wholesale Department

D. G. (Peter) Buckley
General Manager, Shop-Rite Catalogue Stores

John A. English
Director of Personnel, The Bay

William H. Evans
Director of Operations Services, The Bay

Douglas W. Mahaffy
Director of Budgetting and Planning, The Bay

Dwane B. Byers
Manager, Fur Sales Department, Montreal

Hugh M. Dwan
Managing Director,
Hudson's Bay and Annings Limited

William F. Thompson
Senior Vice-President,
Hudson's Bay Distillers Limited

SIMPSONS

Board

Thomas J. Bell
Chairman of the Board,
Abitibi Paper Company Limited

Betty Kennedy Burton
Public Affairs Editor, CFRB Limited

Edgar G. Burton
President, Simpsons, Limited

G. Allan Burton
Chairman of the Board, Simpsons, Limited

Raymond Lavoie
President, Crédit Foncier Franco-Canadien

Alexander D. MacIntosh
Partner, Blake, Cassels & Graydon

Donald S. McGiverin
President, Hudson's Bay Company

J. Michael G. Scott
Vice-President & Director, Wood Gundy Limited

Ian D. Sinclair
Chairman of the Board,
Canadian Pacific Limited

Charles B. Stewart
Retired officer, Simpsons, Limited

A. Ernest Wilkes
Vice-President, Finance, Simpsons, Limited

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

G. Allan Burton
Chairman of the Board

Donald S. McGiverin
Deputy Chairman of the Board

Edgar G. Burton
President

Ronald J. Crichton
Vice-President, Stores

J. Richard Davidson
Vice-President, Personnel

Kenneth W. Kernaghan
Vice-President and Secretary

Ian C. McSweeney
Vice-President, Merchandising

A. Ernest Wilkes
Vice-President, Finance

Ian M. Gibson
Treasurer

Ronald L. Radley
Assistant Secretary

ZELLERS

Board

James G. Balfour
President, Zeller's Limited

Donald N. Byers
Partner, Byers, Casgrain, McNally,
Dingle, Benn & Lefebvre

R. Ross Craig
Executive Vice-President, Commercial,
Dominion Foundries and Steel Limited

Graham R. Dawson
President, Dawson Construction Limited

Jack Diamond
President, J. Diamond and Sons Limited

C. Frederick Graves
Executive Vice-President,
Fields Stores Limited

John M. Levy
Executive Vice-President,
Corporate Development, Zeller's Limited

Keith H. MacDonald
Chairman of the Board, IAC Limited

Donald S. McGiverin
President, Hudson's Bay Company

J. Robert Ouimet
President, J. Rene Ouimet Enterprises Ltd. &
Cordon Bleu Limited

Joseph Segal
Chairman of the Board, Zeller's Limited

Peter W. Wood
Executive Vice-President,
Hudson's Bay Company

Officers

Joseph Segal
Chairman of the Board

James G. Balfour
President and Chief Executive Officer

John M. Levy
Executive Vice-President,
Corporate Development

William H. Buggs
Vice-President, Store Expansion,
Services and Expense Control

Thomas H. Burdon
Vice-President, Personnel

Hans E. Busse
Vice-President, Store Management

John F. Crowley
Vice-President, Merchandise

Eric S. Paul
Vice-President, Store Development

Marc-André Filion
Secretary and Legal Counsel

Michael A. Montagano
Director of Finance

William E. Vickers
Comptroller-Treasurer

MARKBOROUGH PROPERTIES

Board

Tullio Cedraschi
President,
CN Investment Division,
Canadian National Railways

Alex R. Grant
President, George Wimpey Canada Limited

Gordon C. Gray
President, A. E. LePage Limited

Captain Joseph Jeffery
Chairman of the Board
London Life Insurance Company

H. Peter Langer
Executive Vice-President,
Markborough Properties Limited

Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon

Brian R. B. Magee
President, Markborough Properties Limited

Donald S. McGiverin
President, Hudson's Bay Company

John G. W. McIntyre
Corporate Vice-President, Real Estate
and Development, Hudson's Bay Company

Donald F. Prowse
Executive Vice-President,
Markborough Properties Limited

Peter W. Wood
Executive Vice-President,
Hudson's Bay Company

Officers

Donald S. McGiverin
Chairman of the Board

Brian R. B. Magee
President

H. Peter Langer
Executive Vice-President

Donald F. Prowse
Executive Vice-President

John B. Alguire
Vice-President

Donald R. Cole
Vice-President

George H. Mundy
Vice-President and Treasurer

James C. Shapland
Vice-President and Secretary

Reinier P. Grevers
Assistant Treasurer

Reginald W. Munro
Assistant Secretary

The Company – A Brief Description

THE COMPANY TODAY

Merchandising. Approximately 600 stores in three retail groups, THE BAY, SIMPSONS, and ZELLERS, serve the diversified needs of Canadians from Newfoundland to the Yukon and from the Arctic Islands to the United States border. The Bay is strongly represented in ten of Canada's important cities and is the leading retailer throughout the Canadian North. Shop-Rite catalogue stores are located in Ontario. Simpsons operates full-line department stores in eight major cities. Zellers operates promotional department stores and variety stores across Canada and Fields family clothing stores in the western provinces. HUDSON'S BAY WHOLESALE distributes giftwares, confectionery and tobacco products through a network of branches located from coast to coast. The Company's famous blankets and spirits are sold throughout Canada.

The Company maintains its traditional interest in fur, with auction houses in Montreal, New York, London and Winnipeg.

Natural Resources. The Company has two principal natural resource investments. HUDSON'S BAY OIL AND GAS COMPANY LIMITED, 21.1% owned, was formed in the 1920's as a joint venture between H B C and Continental Oil Company, and is today one of Canada's leading exploration and production companies. Most of its current production of oil and natural gas is from the province of Alberta. Exploration rights are owned in Canada and many other countries.

The second investment, in preferred shares of a subsidiary company of DOME PETROLEUM LIMITED, is the result of the disposition in 1979 of a 35% equity interest in Siebens Oil & Gas Ltd.

Real Estate. The Company's real estate interests consist principally of whole or partial ownership of shopping centres and commercial buildings in Canadian cities, in addition to ownership of MARKBOROUGH PROPERTIES LIMITED. Markborough is a Canadian property development company with substantial holdings of residential, commercial and industrial properties located in the Toronto area and in other Canadian and United States cities.

Personnel. In its various activities, including Simpsons and Zellers, the Company employs over 40,000 people.

HISTORY

Incorporation. King Charles II granted on May 2, 1670 to 18 Adventurers a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch *"Nonsuch,"* with Des Groseilliers aboard, to Hudson Bay to trade for furs.

In 1970, three hundred years after its incorporation, the Company was continued as a Canadian corporation and the headquarters were transferred from the United Kingdom to Canada.

Competition. During the first century of the Company's existence the men on the Bay established forts, traded with the Indians and were involved in wars with the French.

As competition from the Montreal-based North West Company increased in the 1770's, the Company moved into the interior and gradually built a network of routes and forts spread out over the north and west. The two rival companies amalgamated under the Hudson's Bay Company name in 1821.

Deed of Surrender. In 1870, by Deed of Surrender, the Company's chartered territory was formally transferred to the Government of Canada in return for farm lands in the prairie provinces which were sold to settlers during the next 85 years.

Following the Deed of Surrender the Company turned its attention to the retail trade, which is now its most important activity.

Twentieth Century. The Company built downtown department stores in each of the major cities of western Canada (1913-1968), co-founded Hudson's Bay Oil and Gas Company Limited (1926), acquired Henry Morgan & Co. Limited (1960), A. J. Freiman Limited (1971), 35% of Siebens Oil & Gas Ltd. (1973), acquired control of Markborough Properties Limited (1973), Simpsons, Limited (1978), Zeller's Limited (1978), and disposed of its Siebens investment (1979).